



# COMMISSION NEWS

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ARIZONA CORPORATION COMMISSION, 1200 W. WASHINGTON, PHOENIX, AZ 85007

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TO: EDITORS, NEWS DIRECTORS  
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CONTACT: Heather Murphy (602) 542-0844

## **SWEEP NETS INSURANCE AGENTS FOR FRAUDULENT SALE OF INVESTMENTS**

PHOENIX – The Arizona Corporation Commission's Securities Division named 23 parties, including nine Arizona insurance agents in a sweep of cases involving the fraudulent sale of securities. The insurance agents are accused of selling unregistered promissory notes, viatical settlement policies and interests in ATM machines. Investors may have lost in excess of \$11.9 million. The sweep is a direct result of growing concerns about cross-over abuses in the insurance and securities industries.

Insurance agents named in the cases are:

<del>///</del> Mark Alan Melkowski, Sr., 48, of Tempe;	<del>///</del> Roger George Lancette, 61, of Scottsdale;
<del>///</del> Hyland A. Stokes, 57, of Phoenix;	<del>///</del> Gary Lyle Christian, 53, of Glendale;
<del>///</del> Wallace Butterworth, 69, of Phoenix;	<del>///</del> Robert Hylton, 62, of Glendale; and
<del>///</del> David Nutter, 51, of Phoenix;	<del>///</del> Michael Lynn Bill, 53, of Glendale.
<del>///</del> Ronald Lee Goble, 64, of Scottsdale;	

Also named in the actions are 13 other businesses, most of them out-of-state companies who supplied the high-commission investments that the agents sold. In one of the cases, the Commission alleges the agent sold nonexistent viatical settlement policies to an 87-year-old woman for \$60,000. In another case, the Commission alleges the agent sold promissory notes to his clients, pocketing the money to pay his expenses.

**How big is the problem?**

Securities regulators nationwide cite fraudulent sales of securities by unauthorized insurance agents as one of the largest problems facing the industry today. Since January 2000, the Corporation Commission has issued cease and desist orders against 15 other licensed agents for selling fraudulent promissory notes, pay telephones, ATMs and viatical settlement policies. Illegal agent involvement in prime bank schemes (nonexistent investments promising triple-digit returns through access to the world's elite banks) and oil and gas schemes are also on the increase. The losses to investors from these sales amount to tens of millions of dollars.

The Commission's Securities Division is involved presently in the criminal prosecution of two insurance agents who are accused of taking nearly \$5.5 million in investor funds. John Herman Lawson, 47, of Phoenix, is currently being held in Madison Street Jail awaiting trial in Maricopa County Superior Court. Lawson is charged with 19 felony counts for selling over \$2 million in fraudulent promissory notes. Kurt Woodburn, 47, of Mesa, is set for trial on September 11, 2001 in Pima County Superior Court, on 45 felonies including securities fraud, exploitation of the elderly and theft.

### **Why do insurance agents get involved in securities sales?**

There are two main reasons an agent might get involved in securities sales: 1) having a willing target audience and, 2) the promise of high commissions. Insurance agents have access to detailed financial information and are often in a position to earn the confidence of their clients. People usually build a bond of trust with their insurance agents and rely on them for investment advice. The result has been that people selling these fraudulent investments are moving out of the boiler room and onto Main Street – flagrantly promoting their products and confusing the unsuspecting client. A deceptive agent may also switch clients from conservative insurance products to risky, unregistered investments, which may involve substantial surrender fees. If the fees are even disclosed, the agents assure clients that the high returns they make will more than compensate for any fees.

Because insurance agents make money by earning commissions, they can be lured by the promise of higher than average commissions. A scam artist may approach the insurance agent with the promise of lucrative commissions on risky investments like promissory notes and unregistered securities. The agent breaks the law by selling the product but may also be a victim of another scam artist – the one who encouraged the agent to sell the fraudulent products.

“Scammers are now recruiting independent life insurance agents to act as sellers,” said Securities Division Director Mark Sendrow. “While the vast majority of insurance agents are honest and reputable, a growing minority, lured by high commissions, are relying solely on the misleading or false marketing claims of the con artist.” The Securities Division’s advisory notice to insurance agents is posted on the Commission’s website at [http://www.ccsd.cc.state.az.us/hot\\_topics/InsuranceAgent2001.pdf](http://www.ccsd.cc.state.az.us/hot_topics/InsuranceAgent2001.pdf)

The Arizona Insurance Department supports the Securities Division’s efforts to combat the growing problem of insurance agents improperly selling securities. The Department issued a press release on April 9, 2001, which alerted both insurance agents and the public to the increased frequency of these fraudulent sales. In the past year, the Insurance Department has revoked the licenses of several insurance agents as a result of investigations by the Securities Division.

Chairman Bill Mundell, Commissioner Jim Irvin and Commissioner Marc Spitzer have stated that they are pleased with ongoing enforcement actions targeting unregistered salespeople, including insurance agents. “The magnitude of the problem seems to be growing. Each of the 10 individuals named in this action is entitled to due process under the law, which is why I refuse to comment on any of the specifics of this enforcement action,” Mundell said. “But I do want the people of Arizona to know that insurance agents should not be selling securities unless they are licensed to do so.”

Commissioner Irvin echoed this sentiment adding: “The best protection is prevention. Investors need to do their own due diligence and make sure they are investing through a licensed investment professional and buying insurance through a licensed insurance professional.”

“The training and licensure process for securities salespeople is an educational process that provides them with a solid understanding of their rights and obligations to their client base,” Marc Spitzer explained. “Insurance agents also have a licensure process but it does not cover the intricacies of the securities market. Insurance agents need to obtain a securities license or stick to the business they know.”

Investors can call the Commission's Securities Division to check to see if an investment vehicle is properly registered or whether the salesperson is licensed or registered in Arizona. Call the Division at 602-542-4242 or, toll-free outside the Phoenix area, at 1-877-811-3878.

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(Proposed Sidebar)

**How to protect yourself from insurance agents offering investment products:**

- ~~///~~ Question the agent to ensure that he or she is licensed to sell the investment product. An independent insurance agent is typically licensed to sell life, property, health, and/or annuity insurance policies. Only with a securities license can he or she sell securities.
- ~~///~~ Check to see if your agent has researched the investment completely for legitimacy and suitability. Trusting the word of the promoter is not enough when it concerns your money.
- ~~///~~ Ask your agent to provide you with verifiable statistics regarding the past performance of your investment. Demand that your agent explain the risks involved with the investment as well.
- ~~///~~ Ask questions until you understand. Repeat the information back to the agent to check for mutual understanding of the transactions.
- ~~///~~ Do not be afraid to ask about the agent's commission. A reputable agent will not be uncomfortable with this request. Remember: typically, the higher the commission, the riskier the venture.
- ~~///~~ Be wary of assurances that healthy returns will compensate for a loss of money due to early withdrawal fees or other "surrender" fees.

You should always investigate investment opportunities before you risk your money. A free call to the Arizona Corporation Commission's Securities Division can help you learn whether the securities and/or salesperson are properly registered. Call 602-542-4242, toll free at 1-877-811-3878, or visit the division's website at [www.ccsd.cc.state.az.us](http://www.ccsd.cc.state.az.us).

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